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ABSTRACT

This paper compares state aid to each school system in Nebraska for school years 1997-98 and 1999-2000. State aid received in 1997-98 was the last before passage of LB-806, which set the current school funding formula. LB-1114, which caps local property tax levies, was adopted by the Legislature in 1996. The combined effects of these two laws determine the amount of local and state resources received by individual school systems. Analysis reveals that 90 school systems have lost 10 percent or more in state funding over the 2-year period. These school systems represent about 23,000 children, or about 9 percent of Nebraska's total school enrollment. The systems have lost nearly $15 million in state aid, money presumably not replaced by local property taxes. These school systems are generally small, with a median K-12 enrollment of 225 students, and high-performing, with a median high school completion rate of 97 percent. The vast majority of these school systems are in relatively densely populated areas of the state, in communities located relatively close together. This suggests that LB-806 and LB-1114 together provide an incentive for school systems in these areas to consider alternative structures such as consolidation or district unification. Policy recommendations are offered to maintain well performing, efficient, community-based schools. The 90 school systems are listed with their enrollments and losses in state aid. (SV)

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Big Trouble for Small Schools:

An Analysis of the Effects of LB 806

Nebraska Alliance for Rural Education

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Center for Rural Affairs

October 1999

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About the Nebraska Alliance for Rural Education

The Nebraska Alliance for Rural Education is a partnership between School at the Center, the Center for Rural Affairs, the Nebraska Rural Development Commission, the Local Government Assistance Program, and the Rural Forum (which includes the Nebraska Farm Bureau Federation, Nebraska Farmer's Union, Nebraska Rural Community Schools Association, Class I's United, Nebraska School Finance Coalition, and Friends of Rural Education). The purpose of the Alliance is to launch a broad based coalition of leading rural, farm, and education activists in Nebraska to "build the capacity of rural people to fight for adequate, equitable, and quality rural education and community development as defined and developed by rural people themselves."

The Nebraska Alliance for Rural Education features grassroots organizing, policy research, training for rural activists and school board members, and work with the news media.

This report is part of a series of research aimed at strengthening state-wide policy supporting rural education and rural community schools.

The Alliance believes that:

- State policy should be guided on the basis that equal educational opportunities for Nebraska children are a right guaranteed by the Nebraska Constitution under the Equal Protection Clause.
- State education policy should support schools that are community-based, small in scale, and achieve local, as well as state, goals and standards of quality education.
- State educational financing should recognize cost differences that reflect local circumstances and needs ("fund them as you find them"), promote resource stability and predictability, and utilize an aid distribution formula that is based on actual cost of doing business and local capacity to pay.

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Abstract

An analysis of certified state aid to school systems comparing school years 1997-1998 and 1999-2000 reveals that 90 school systems have lost 10 percent or more in state aid funding. These school systems represent about 23,000 children, or about 9 percent of Nebraska's total public school enrollment. These systems have lost nearly $15 million in state aid, money presumably not replaced or shifted to local property taxes. The vast majority of these schools are small, with a median 1998-1999 K-12 enrollment of 225 students. The vast majority of these schools are also in relatively densely populated areas of the state, in communities located relatively close together. This suggests that the twin combinations of LB 806 and LB 1114 contain an incentive for schools in these areas and in these circumstances to consider alternative structures such as consolidation or unification.

Methodology

Amounts of state aid to schools for each school system in Nebraska as certified by the Nebraska Department of Education were compared for school years 1997-1998 and 1999-2000. The 1997-1998 school year is the "base year" for current school finance in Nebraska; LB 806, which set the current school formula (with minor modifications since), was adopted by the Nebraska Legislature in its 1997 session. Therefore, the state aid received by schools in 1997-1998 was the last under the pre-LB 806 state aid formula. The Legislature adopted LB 1114, which caps local property tax levies, in 1996. The combined effects of these two laws determine the amount of local and state resources received by individual school systems.

In December 1997, the Center for Rural Affairs issued a report entitled *Affects of LB 1114 and LB 806 on School Funding for 1998/99.* This report analyzed the funding disparity between state aid in 1997-1998 (defined as a school system's "need") and the certified state aid for school systems for 1998-1999 pursuant to the then-newly adopted LB 806. That report found that 64 school systems would lose more than 10 percent of state aid under LB 806 for 1998-1999. This report updates the 1997 report based on another school year's experience with LB 806 and LB 1114.

All data concerning state aid and enrollment is from the Nebraska Department of Education.

Findings

When considering state aid figures for the two school years in question (1997-1998 and 1999-2000), 90 school systems have 10 percent or more less state aid funding for 199-2000 than received in 1997-1998. These systems will receive nearly $15 million less in state aid in 1999-2000 than received prior to LB 806, a 29 percent decrease.

As with many examples of public policy that divide public funds, there are "winners" and "losers." These 90 school systems could definitely be classified as "losers" under the current state aid formula. These systems also have clear characteristics. Generally, these 90 school systems are:

⇒ **Small.** These systems have a total 1998-1999 K-12 enrollment of 22,944 students, or about nine percent of Nebraska's total K-12 public school enrollment. The median K-12 system enrollment is 225, or an average of 17 students per grade. A common way to judge size in Nebraska is to consider activity class. Nebraska schools are divided into six activity classes – A, B, C-1, C-1, D-1 and D-2 – based on enrollment, with Class A schools the largest schools in the state and D-2 schools the smallest. As Table 1 shows, 75 percent of these systems are Class D schools, while none are Class A or B schools.

Activity Class	Number of Systems	Percentage of Systems
A	0	0
B	0	0
C-1	6	6.8
C-2	16	18.1
D-1	28	31.8
D-2	38	43.2

Table 1

Note: Two school systems – Trumbull and Guide Rock – do not have high schools, and thus are not considered in dividing the 90 systems among activity class. Percentages are based on 88 school systems.

⇒ **Rural.** Nebraska has 47 counties considered "completely rural" under the United States Department of Agriculture BEALE Code Classification. The list of 90 school systems includes 25 of these counties containing 44 school systems. The map attached hereto shows the location of each of the 90 school systems, with a legend that indicates systems by county.

⇒ **Well performing.** The report *Small Schools, Big Results* of the Nebraska Alliance for Rural Education found that high school completion rates in Nebraska were best for smaller schools. An analysis of the data used for that report finds that from school years 1991-1992 to 1994-1995, the median high school completion rate for these 90 systems was 97 percent (compared to the statewide average of 85 percent). In the 1997-1998 school year, these 90 systems had an average "drop out" rate of nearly 2 percent; 50 of these systems had no dropouts.

⇒ **Efficient.** *Small Schools, Big Results*, using a cost-per-graduate measure of expenditures and economic "efficiency," found that high schools of 300-599 students had the lowest expenditures per pupil likely to graduate, $5,790. These 90 school systems have an average annual expenditure per pupil likely to graduate of $6,717, only

$927 more than the most "efficient" school size. By further comparison, the largest schools in the state (those with over 1,000 high school students) had an average annual expenditure per pupil likely to graduate of $6,397, only $420 less than these 90 systems. For these few dollars more, high school completion rates were significantly greater[1] and students and patrons of the systems received the educational, social and communal benefits of smaller schools.

By comparison, there are "winners" under the current state aid formula. Many small schools, particularly in the western part of the state, received bumps in state aid due to their inclusion in the cost groupings that recognize the unique needs and costs of sparseness. The largest schools in the state also received significant increases in state aid as a result of LB 806. Nebraska's Class A schools received a total of nearly $78 million more in state for school year 1999-2000 than they received pre-LB 806 in 1997-1998. On average, Class A districts are now receiving 133 percent of the state aid they received in 1997-1998; the 90 systems considered in this report are receiving 71 percent of the state aid received two years ago. For comparison, Table 2 shows the state aid Class A systems are receiving for school year 1999-2000 as a percentage of that received in 1997-1998.

School system	1999-2000 State Aid as a Percentage of 1997-1998 State Aid
Kearney	124%
Fremont	133%
Omaha	142%
Millard	115%
Westside	120%
Grand Island	132%
Lincoln	151%
North Platte	149%
Norfolk	124%
Columbus	155%
Bellevue	122%
Pappillion-La Vista	120%

Table 2

This comparison is not to begrudge the state aid received by Class A schools; the students there are entitled to a quality education the same as any other child in any other system in the state. This comparison does, however, point to the vast disparity in effects of current school finance policy in different areas of the state.

[1] High school completion rates were 89 percent for those systems with 300-599 high school students, and 84 percent for those systems with 1,000 or more high schools students. *Small Schools, Big Results*, Nebraska Alliance for Rural Education, 1999.

Policy Implications

It is clear from the location of the 90 school systems that LB 806 has created a class of school systems within the "standard" cost grouping treated poorly by the school finance formula. This public policy bias appears to work most against those small school systems located near other similar systems generally in areas of relatively dense populations. This policy impact, and the direct consolidation incentives contained in the school finance formula, creates a powerful economic incentive for school systems to consider alternative structures such as consolidation or unification.

This economic incentive becomes more powerful when considering the effects of the LB 1114 property tax lids. Despite the lids enacted pursuant to LB 1114 and the additional state aid to education appropriated by the Legislature, recent data show property taxes in Nebraska – especially on agricultural land – remain among the highest in the nation. The continued heavy reliance upon property taxes for school financing in rural areas is particularly distressing in times such as now when commodity prices and farm income remain low. Yet, the $15 million lost in state aid since 1997-1998 to these 90 systems can be addressed in limited ways – increased property taxes, either through increased valuations or levy limit overrides; severe cuts in educational budgets; school closure; or consolidation. All in all, not attractive options to rural Nebraskans, and options that threaten both the equity and adequacy of education for Nebraska's small schools.

Public policy that pressures small schools into consolidation through underfunding and incentives is counter-productive. As schools get larger, educational results worsen. The academic, social and communal advantages of smaller schools are lost. It makes little sense for the best of communities and the society to adopt public policy that worsens the achievement and outcomes of our schools and students.

To maintain well performing, efficient, community-based schools, and to prevent a worsening of Nebraska's educational achievement and outcomes, the Nebraska Legislature should consider the following:

⇒ The funding of local schools should follow the principle of "fund them as you find them" that is applied to other essential services such as electricity, water, roads and communications.
⇒ The state aid distribution formula should reinstate a system of cost groupings based on school size and should incorporate the actual cost of providing an adequate education for each district rather than average expenditures based primarily on the largest systems in the state.
⇒ The state aid distribution formula should include factors that can be shown to impact the cost of providing an adequate education to all students, including number of

students, distance, construction costs, school readiness, learning ability and other special education needs.

⇒ The state aid distribution formula should incorporate the local capacity of a school system's property owners to pay the levied property taxes and not base funding solely on the taxable property wealth of the system.

⇒ The Nebraska school finance system should promote resource stability and predictability.

⇒ The Nebraska school finance system and state education policy should support the achievement of high level educational outcomes and recognize that community-based schools, whether in small or large systems, are the best option for meeting the educational goals of the community and the educational standards of the state.

School Systems With 10% or Greater Loss of State Funding

School System	$ Decrease 97/98-99/00	% Decrease	98-99 K-12 Enrollment
Wheeler Central P.S.	21,788.54	100	151
Clarks P.S.	219,711.56	88	146
Dodge P.S.	196,350.64	86	178
Bruning P.S.	206,656.06	85	156
Centennial P.S.	99,434.30	84	684
Exeter P.S.	161,612.69	79	210
Kenesaw P.S.	206,132.46	75	257
Monroe P.S.	240,964.68	70	126
McCool Junction P.S.	181,908.61	67	149
Silver Lake P.S.	103,847.57	65	284
Elgin P.S.	132,344.66	65	215
Brady P.S.	104,974.79	65	152
Giltner P.S.	74,751.41	57	189
Trumbull P.S.	139,431.70	57	58
Petersburg P.S.	135,194.01	55	142
Fairmont P.S.	217,863.95	51	183
Hildreth P.S.	181,517.49	51	156
South Platte P.S.	128,880.01	50	249
Nemaha Valley Schools	344,193.58	47	263
Maxwell P.S.	299,700.06	47	265
St. Edward P.S.	247,964.49	46	231
Cedar Bluffs P.S.	259,757.21	46	318
SE Nebraska Consolidated	246,298.73	43	261
Leyton P.S.	62,169.51	41	280
Milligan P.S.	172,436.43	40	140
Spencer-Naper P.S.	447,464.01	39	308
Guide Rock P.S.	90,558.10	37	28
Orchard P.S.	247,019.61	37	227
Clarkson P.S.	199,386.68	35	232
Odell P.S.	233,218.24	35	211
Republican Valley School	402,775.24	35	315
Table Rock-Steinauer Schools	142,611.59	34	122
Dorchester P.S.	185,856.19	34	248
Chester-Hubbell-Byron Schools	134,370.83	34	152
Coleridge C.S.	279,474.56	33	238
Culbertson P.S.	261,604.63	33	213
Pleasanton P.S.	213,584.78	32	262
Rising City P.S.	58,571.08	32	158
Howells P.S.	181,199.62	32	229
Hay Springs P.S.	290,632.79	32	214
Newman Grove P.S.	173,605.83	32	318
Lodgepole P.S.	82,695.65	31	156
Diller C.S.	139,918.70	31	156

School Systems With 10% or Greater Loss of State Funding

Silver Creek P.S.	90,065.35	31	185
Butte P.S.	168,115.16	30	149
Clearwater P.S.	187,303.79	29	190
Leigh C.S.	213,706.08	28	304
Newcastle P.S.	179,981.81	28	187
Ewing P.S.	198,423.12	28	190
Amherst P.S.	231,592.30	27	295
Elba P.S.	181,809.80	27	173
Paxton Consolidated Schools	63,178.10	27	222
Crofton C.S.	312,014.64	27	426
Clay Center P.S.	171,361.79	26	265
Bancroft-Rosalie C.S.	173,779.66	26	322
Allen Consolidated Schools	175,275.13	25	224
Stuart P.S.	217,750.95	25	209
Hampton P.S.	37,378.76	24	175
Osmond P.S.	142,553.57	24	284
Lyons-Decatur Northeast	233,100.59	23	439
Dawson-Verdon P.S.	126,309.12	23	183
Verdigre P.S.	158,524.09	23	265
Bennington P.S.	340,198.45	22	546
Pender P.S.	213,006.26	22	426
Blue Hill P.S.	212,505.39	21	357
Lynch P.S.	103,228.84	21	121
Lawrence P.S.	63,083.09	20	125
Arcadia P.S.	77,295.65	19	116
Stanton C.S.	284,302.03	19	483
Fullerton P.S.	186,650.10	18	431
Syracuse-Dunbar-Avoca Schools	172,666	18	633
Wheatland P.S.	40,972	18	163
Wausa P.S.	90,783.05	18	220
Nelson P.S.	90,786.75	17	208
Weeping Water P.S.	145,326.45	16	428
Beemer P.S.	91,204.17	16	182
Alma P.S.	155,929.14	15	407
Sioux Co. H.S.	12,016.27	15	54
Medicene Valley P.S.	94,813.11	14	288
Sterling P.S.	86,556.06	14	249
Bloomfield C.S.	115,857.85	14	407
Elkhorn Valley Schools	164,055.99	14	483
Osceola P.S.	41,484.69	14	312
Albion P.S.	129,104.95	13	648
Wynot P.S.	71,834.79	13	182
Waterloo P.S.	75,027.06	12	269
Hershey P.S.	135,824.13	12	485

Adams County	**Frontier County**	**Polk County**
Kenesaw Public Schools	Medicine Valley Public Schools	Stromsburg Public Schools
Silver Lake Public Schools	**Gage County**	Osceola Public Schools
Antelope County	Odell Public Schools	**Red Willow County**
Clearwater Public Schools	**Hamilton County**	Republican Valley Schools
Elgin Public Schools	Giltner Public Schools	**Richardson County**
Orchard Public Schools	Hampton Public Schools	SE Nebraska Consolidated Schools
Boone County	**Harlan County**	Dawson-Verdon Public Schools
Albion Public Schools	Alma Public Schools	**Saline County**
St. Edward Public Schools	**Hitchcock County**	Dorchester Public Schools
Petersburg Public Schools	Culbertson Public Schools	**Saunders County**
Buffalo County	**Holt County**	Prague Public Schools
Amherst Public Schools	Ewing Public Schools	Cedar Bluffs Public Schools
Pleasanton Public Schools	Stuart Public Schools	**Seward County**
Burt County	**Howard County**	Centennial Public Schools
Lyons-Decatur Northeast	Elba Public Schools	**Sheridan County**
Butler County	**Jefferson County**	Hay Springs Public Schools
Rising City Public Schools	Diller Community Schools	**Sioux County**
Boyd County	**Johnson County**	Sioux County High School
Butte Public Schools	Sterling Public Schools	**Stanton County**
Lynch Public Schools	Nemaha Valley Public Schools	Stanton Community Schools
Spencer-Naper Public Schools	**Keith County**	**Thayer County**
Cass County	Paxton Consolidated Schools	Chester-Hubell-Byron Schools
Weeping Water Public Schools	**Knox County**	Bruning Public Schools
Cedar County	Crofton Community Schools	**Thurston County**
Wynot Public Schools	Wausa Public Schools	Pender Public Schools
Coleridge Public Schools	Bloomfield Community Schools	**Valley County**
Cheyenne County	Verdigre Public Schools	Arcadia Public Schools
Leyton Public Schools	**Lincoln County**	**Webster County**
Lodgepole Public Schools	Brady Pulic Schools	Blue Hill Public Schools
Clay County	Maxwell Public Schools	Guide Rock Public Schools
Clay Center Public Schools	Hershey Public Schools	**Wheeler County**
Trumbull Public Schools	**Madison County**	Wheeler Central Schools
Colfax County	Newman Grove Public Schools	**York County**
Leigh Community Schools	Elkhorn Valley Public Schools	McCool Junction Public Schools
Clarkson Public Schools	**Merrick County**	
Howells Public Schools	Silver Creek Public Schools	
Cuming County	Clarks Public Schools	
Bancroft-Rosalie Community Schools	**Nance Public Schools**	
Beemer Public Schools	Fullerton Public Schools	
Deuel County	Genoa Public Schools	
South Platte	**Nuckolls County**	
Dixon County	Nelson Public Schools	
Newcastle Public Schools	Lawrence Public Schools	
Allen Consolidated Schools	**Otoe County**	
Dodge County	Syracuse-Dunbar-Avoca Schools	
Dodge Public Schools	**Pawnee County**	
Douglas County	Table Rock-Steinauer Public Schools	
Waterloo Public Schools	**Perkins County**	
Bennington Public Schools	Wheatland Public Schools	
Fillmore County	**Pierce County**	
Fairmont Public Schools	Osmond Public Schools	
Milligan Public Schools	**Platte County**	
Exeter Public Schools	Monroe Public Schools	
Franklin County		
Hildreth Public Schools		

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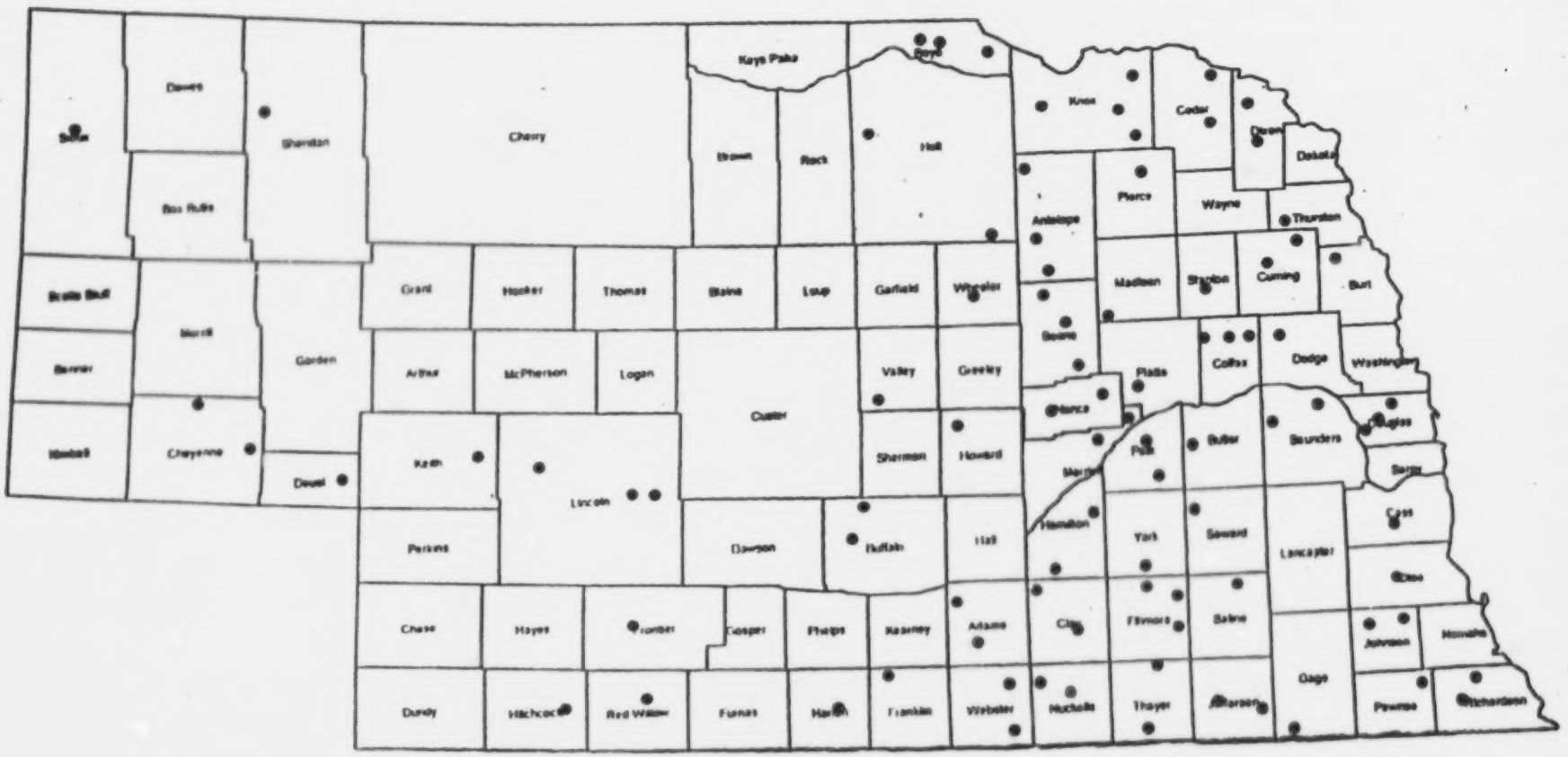

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